COST AND MANAGEMENT

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The three members of this panel are all in the field of industrial relations in Toronto, D. G. Pyle, as consultant with Industrial Relations Institute, M. O'Brien as Manager, Employee Relations, of Canadian General Electric Company Limited and C. C. Belden as Manager, Canadian Operations, of Industrial Relations Counselors Service, Inc. Mr. Pyle is former Secretary of the National War Labour Board, Ottawa. Mr. O'Brien has served as employer nominee on many arbitration and conciliation boards, while Mr. Belden has an extensive background of practical experience in industrial relations with leading companies in the U.S.A.

Mr. Hopkins joined the Canadian Marconi Company in 1925 as Senior Accountant in the General Accounting Division, rising through various positions to his present one of Secretary and Treasurer of the company. Born and educated in Montreal, he attended night courses in accounting and allied subjects, while specializing in cost accounting for the textile industry. He later held senior positions in several manufacturing and insurance companies, securing broad experience in general accounting and financial management.

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Editorial Comment . . .

SO THE STORY GOES . . .
OR
THE DEMAND AND SUPPLY OF BRAINPOWER

Once upon a time, so the story goes, there lived a young girl called Cinderella. For this girl, no one would have prophesied a brilliant future as she sat is the fireplace corner, barefoot and ragged, her face begrimed from household toil. Yet, miraculously, a touch of the fairy godmother's wand turns her into a shimmering beauty, who hurries off to the ball to meet her prince and live happily ever after.

This timeless child's tale, as with most things that endure, holds a grain of truth for us today. It is not hard to see the analogy between this tale and the story of Canada, a veritable Cinderella of nations. The writings of our pioneer forefathers paint an early picture of struggle and hardship in contrast to the peace and abundance that surround us now. Indeed the element of magic has entered here: a wand of plenty waved over our forefathers, gracing their every effort with success. When their picks struck the rocky ground, they discovered mineral wealth; when their ploughs broke the crusty soil, the land proved arable; when their axes felled the mighty trees, they cut good timber; when they sought cheap electric power, the land offered its numerous streams to their will.

And long after the initial stages, the magic has lived on. While other nations are torn by racial, ethnic and economic issues, this nation flourishes in peace and plenty. No scar, of the magnitude of the American Civil War for instance, has ever marred the Canadian nation. In Canada, conversely, the diversity of ethnic groups has encouraged tolerance and understanding and Canada's great wealth has been used in part to banish the uglier cancers of inequality. Not unrelatedly, political maturity has crowned our gifts. And so the Canadian scene, known for the freedom of its people and the stability of its institutions, has proved extremely attractive to foreign investment.

Yet to this tale of waxing fortunes, as to the fairy tale, comes the inevitable twelfth hour and, with Cinderella, we are left facing reality, not quite in rags but with a growing poverty of one precious commodity, brainpower. This shortage of brainpower is evident everywhere. Small towns are competing for the services of medical doctors. Large firms are sponsoring nation-wide advertisements in an effort to recruit scientists. Other firms are raiding university faculties and enticing dedicated educators with exceptional salaries and excellent research facilities. Realizing that the demand for brains has far outstripped the supply, firms are attempting to stockpile. Their personnel officers swarm to

the universities to beguile the promising students with such lucrative inducements as starting salaries of $350 to $400 a month and the occasional all-expense paid excursion to see the company in operation. Obviously these beginners are being subsidized in their early careers, in the hope that as they mature and acquire wisdom, many of them will still be with the company to fill the vacancies at the top.

How did this shortage occur? Why this dearth of top calibre brains —minds which are intelligent, creative and attuned to initiative? The relative shortage is nothing new, the old adage being "there is always room at the top." But the critical factor is that this old adage is truer today than it has ever been in Canada's history. Top management today is alarmed that it may not be superseded by management of equal calibre, at a time when managerial activity is becoming even more complex.

Because of this alarm, business has turned to the universities and professional associations for management training. The demand for such training has risen faster than the demand for any other form of education including engineering. In the United States, for instance, at the present time there are 300,000 students enrolled in universities and business schools. By 1970, it is estimated there will be 1,200,000 students so enrolled. It is a similar story in Canada. More universities are establishing Schools of Business Administration and the four western universities sponsor the Banff School of Advanced Management, which is aimed at the development of middle management. Similarly the universities of the Maritimes run a five week school at Halifax for the same purpose. Our Society also has been co-operating with business. At our annual conferences, carefully prepared programmes serve as refresher courses for accountants in management. Further, we offer in areas where there is a need, courses in Executive Development; and recently we have sponsored short in-residence courses such as the one in Halifax last Fall and that at Perth this Spring.

So we can say that Canada is facing the problem of her twelfth hour, the poor use of her most precious resource, the human one, with a constructive attitude. But here we must part company with Cinderella. As is fitting in a fairy tale, Cinderella's fate is a happy one. Unlike our heroine, we cannot rely upon the inevitability of a happy conclusion. We must plan to make the best use of what we have . . . and then persevere.

C. & M. Round-Up . . .

By N. R. BARFOOT

LOOKING AHEAD

Automation and You. In 1850—65% of all work was performed by human muscles. In 1950—1½% of all manual work was performed by humans. Between 1900 and 1950 the percentage of unskilled workers dropped 45% while that of engineers rose 1,000%.

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Canada is Sharing in Ford Foundation Gifts. The world's largest philanthropic body, the Ford Foundation, is now making gifts to Canadian Universities. In 1956 they amounted to $231,000. $140,000 to Queen's; $60,000 to McGill, and $20,000 to the University of New Brunswick, and small grants to research groups.

—o—o—

Age and Lighting. Tests show that workers age 45 to 65 need twice as much light as workers age 17 to 24. More than half of our working force is over 35 and the percentage is getting bigger. Better check your foot candles—lack of light drastically affects output, quality, safety and health.

—o—o—

Radio Controlled Warehouse Operations. A large Canadian company calculates big savings per annum by the use of two-way radio communications between dispatcher and truck operators in a warehouse operation. If you have large warehouse problems perhaps this is one of the answers.

OF GENERAL INTEREST

CAPITAL INVESTMENT—1957

Eight and one-half million is the estimate for investment in new construction equipment and machinery for this year, with another two and one-third million slated for repairs of existing plant equipment.

This is 8% above the 7,900 million spent last year.

A good share of the increase is due to rising prices.

Five and one-half million goes for new construction.

Three million for machinery and equipment.

Here is where it is going:

Fuel and Power Industries	17%
Housing	16%
Government Departments	13%
Transport, Comm. and Storage	13%
Minerals and Chemicals	9%
Other Commodity Industries	8.7%
Agriculture and Fishing	6.3%

The balance will be taken up by Forest Product Industries and Institutions.

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STUDENTS AND COURSES

It is still uncertain as to whether our training of manpower is in the right direction. In any case, there have been increases in registration for

education, commerce and business administration, engineering and arts and science.

Diminishing registrations were found in physical health and education, library science, dentistry, music, nursing and social science.

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CANADIAN DICTIONARY

To be published in 1959 a new dictionary to contain eighty thousand words.

Will give precise Canadian English meanings for Canadian-French words and vice versa.

Will define Canadian and/or North American meanings where special ones exist.

Will define some Canadian dialects.

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ACADEMIC INCREASES

4,000 University Teachers will receive salary increases averaging 20% of present scales.

Salaries will be raised from the four present grades of $3,500; $5,000; $6,500 and $8,000 to $5,500; $7,000; $9,000 and $12,000 respectively.

The new University of Toronto figures should be raised in 1959 by three stages.

Apparently the University Administrators have decided to pass on to teaching staffs a significant portion of increased University grants announced last fall by the Federal Government.

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ON THE PERSONAL SIDE

Children and Aspirin, if you have a child under four, store aspirin as you would a deadly poison. One hundred thousand children were hospitalized last year through an over-dose of this drug.

—o—o—

Pre-Fab Greenhouse for $225. you can get a 4 x 9 foot lean-to type green house. It can be attached to the side of your house or as a separate room. You supply your own foundation.

—o—o—

Used Car Picture Very Bright, the demand is much higher than last year and prices of most wanted models upped considerably. This may be a sign of down trading by price fringe shoppers.

—o—o—

Fifty Million to One Odds against your dying in an atomic accident. This should allay fears about accidents to unclear reactors. The odds on being killed in an auto accident are only five thousand to one.

—o—o—

Your Car and Deer Make a Costly Combination. 552 accidents worth. $80,000 was spent by Ontario motorists repairing their cars after colliding with deer.

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The Economics of Management . . .

By Calvin C. Potter,
Professor of Commerce,
McMaster University,
Hamilton, Ontario.

According to the economic theory of management, the possibilities of any business are limited by the type of market peculiar to the industry. Success then depends upon how skilfully management is able to make use of economic ideas in exercising its prime function—that of innovation.

ECONOMICS", one eminent economist has said, "is what economists do." A rather trite sounding but nevertheless valid definition, for essentially economists are idea men. Management, on the other hand, means direction, co-ordination, control, and so forth. But even more closely connected with management is the word "innovation"—the act of initiating new products and new methods of production or distribution. Our topic deals with how economic ideas such as competition, demand, and costs can mould or govern management's most important activity—innovation.

Today, in the relationship between management and economists there is a curious state of paradox. In some industries the ideas of economists are welcomed and exploited; in others they are rejected and repudiated. A positive example of welcome to economic ideas is "Operations Research"—a method whereby managers solve complex problems by the use of advanced economic concepts such as linear programming and games theory. This method has proven to be extremely valuable in market forecasting and planning, and it is very popular in complex industries such as electrical goods, steel, and automobiles.

On the other hand, negative examples wherein managers repudiated economic ideas can also be cited. Last year, for instance, a member of one of the Ontario Farm Products Marketing Boards declared with evident pleasure that the Marketing Boards had made the law of supply and demand obsolete. He obviously wanted to reject the economists' idea of how prices are determined. But, in this instance the wish could not correspond to the fact. The member probably meant that the Marketing Boards had been able to affect the price received by producers of farm products. This is true, but they accomplished the change in price by applying an economic idea: control over the supply coming on to the market.

But why, we may ask, should such producers want even in theory to render the law of supply and demand obsolete? To answer truthfully, one would have to concede that they don't want to outdate this economic law of supply and demand; they want to alter the structure of the market in which the law operates and create a market which is more responsive to the decisions of producers.

Full Competition

The market in which the producers of farm products find them-

selves is one with a great many buyers and sellers, each of whom represents an insignificant share of the market. Such markets, called by economists fully competitive markets, are characterized by the fact that no producer can control the price he receives or pays for products—there are no administered prices. The price is set independently and impersonally by the market, and it settles at that level which will equate the quantity demanded and the quantity supplied.

By organizing Marketing Boards, which act as single sellers for the group, farmers seek to alter the structure of their market from one of full competition to something less so, to a structure which enables them to administer or set the price. This aim illustrates the first economic idea I want to stress: the scope of a firm's control over price is set by the structure of its market.

Firms in fully competitive industries, as I've stated, have no control over price. Producers of products such as wheat, barley, potatoes, rubber, cocoa, linseed oil, cotton, etc., are all illustrations of this fact. That they have no discretion over price is true for even the largest of them. In January 1949, for instance, a Missouri cotton planter made what was believed to be the largest sale of cotton in the history of the Memphis market. But the 9,400 bales he sold for $1,400,000 was an infinitesimal 6/10 of one per cent of the 1949 supply. Indeed this planter could have gone to hell with his cotton—instead of Memphis—and there would have been no tremor on any earthly market. This is because cotton is a standardized graded commodity, and his crop represented an insignificant share of the total market.

In such circumstances there is no pricing freedom. Producers cannot get a premium because buyers are indifferent to the source of the good—a given grade of cotton from one plantation is the same as that from another. On the other hand, producers won't offer a discount because then they would be swamped with orders far beyond their capacity. Thus the relation of the producer to the market is that he has no scope for manoeuvre price-wise.

Imperfect Competition

Most firms that you will be familiar with, however, will be somewhat less competitive than the industries we have cited. They will probably be in industries termed "imperfectly competitive"—industries with three to fifteen competitors producing goods to do the same job, although the total number of firms in the industry may be greater. Such firms enjoy more scope in matters of pricing. Take the steel industry, for instance. Although of a commodity nature, steel is produced by only a few firms, each of which has distinct notions regarding its proper share of the market. Because of these notions, the public demand on the steel industry is, in effect, sub-divided into distinct demands for the output of each producer. But even though he has a distinct share of the

market, since one producer's rolled steel is perfectly substitutable for another's, if transportation costs are equal, one steel producer can't expect to get a higher price than his competitor.

Nevertheless, a producer can identify what would be the effect of a price change upon the industry and himself. If, for example, a company supplies 40% of the market, a 25% cut in its output would represent a 10% cut in the supply to the market; the market would therefore tighten and price would rise accordingly. If this firm happened to be a price leader, knowing its competitors will follow its lead, it can short-cut its market manipulation by raising its list price. Whether such a move would be profitable or not is dependent upon the character of demand facing the industry, upon the sensitivity of customers to price and the availability of substitutes.

The automobile industry is another instance of few competitors. In this instance, however, because of the use of brand names, the opportunities for market manipulation will be at their height. Although product lines such as Chevrolet, Ford, and Plymouth are close substitutes, they are not perfectly substitutable owing to differences in design, performance, economy, customer preference and so on. As a result, each brand in the industry is somewhat insulated from the products of competitors, thereby enabling some firms to get premiums for their lines. But the producers, of whom General Motors, Ford, and Chrysler control some 90% of the output, have definite ideas regarding their fair share of the industry demand. In these circumstances there is a serious hazard of price warfare should one firm attempt to alter its established share of the market by price manipulation.

In such circumstances, firms try to increase their market shares by non-price competition. They raise their promotional outlays, or alter their product design, or improve the quality of their product, or introduce service changes. Clearly, firms in industries of few competitors enjoy a considerable scope in the choice of policy whereby they may alter their share of the market.

How this scope will be exploited depends upon the structure of the firm's market, the number, relative size, and product lines of competitors selling products to do the same job. Also influencing the policy will be other factors: the likelihood of potential competition; the stage of consumer acceptance of the product; the distinctness of the physical difference between the seller's and any other competitor's products, and the opportunities for and richness of the mixture of service and reputation making up the product bundle.

Scope and Stages of a Product Cycle

That the structure of the market governs the type of managerial policy adopted can be illustrated by tracing a product through its life cycle. In the initial stages, the producer of an absolutely new product

enjoys a monopoly: his is a specialty good. How long it will remain so before deteriorating into an ordinary common commodity depends upon a number of factors. It depends upon the marketing policy of the firm (whether it wants to skim the market or penetrate it), the effectiveness of its patents, the secrecy of its processes, and the capital cost of setting up in the industry. Even when safeguarded in respect to all these facets, normally a monopoly does not endure beyond ten years.

As a monopolist, the producer can follow a policy of setting a high price, say four times the factory cost. In so doing, he is making effective use of the concept of demand—he is segregating his potential customers and selling first to those who are most insensitive to price. This is standard practice with new products, as is evidenced by our experience with electric blankets, ball pens, TV sets, and so on. It can be justified in terms of the risks of setting up production and the costs of educating consumers, frequently for the benefit of subsequent competitors.

As the market becomes established and sales expand, imitators of the original service idea enter the field. Their new products once on the market, the distinctiveness between the original product and its substitutes is narrowed. Accordingly, the originator's zone of pricing discretion compresses until his once distinctive specialty fades into an ordinary common commodity which is only slightly different from near substitutes. Moreover, because of the fear of price wars, although there are still only a few competitors the originator now has little freedom of pricing.

Non-Price Competition

Since price is not to be the weapon of competition, other economic ideas for manipulating shares of the market must be brought into play. Non-price forms of competition will be pushed. Variation in product, for instance, will become a competitive force, and firms will organize extensive research staffs to keep abreast of technological developments. In this matter of the latest in scientific discovery, neglect can mean ruin, for the research, planning, and product development required before a present model can be supplanted may take years. In the automobile industry, for instance, the planning cycle is three years.

Failure to keep abreast, then, can spell doom. No wonder product variation is regarded as the TNT of competition. It is less explosive than price—the atomic bomb of competition—but it is still highly dangerous. There is, therefore, likely to be some implicit agreement in the industry regarding product competition. It isn't likely that managers will agree to "freeze" such competition completely, because there is the danger that potential competitors may exploit such a situation—the freeze—by getting into the market with new products. But there is likely to be an agreement upon the rate of innovation, the actual rate being determined by the character of the product and the possibilities for planned obso-

lescence. In fashion good industries, for instance, such as ladies' dresses or automobiles, the response of demand to product changes is high. As a result, the rate of product innovation is likely to be rapid.

With the same objective of protecting or altering market shares, promotional outlays on direct selling and advertising may be resorted to. The reaction of competitors to this form of competition, however, is unlikely to be so prompt and vigorous as in the case of price or product competition, for the effectiveness of a promotional campaign is always difficult to foretell. Competitors may be injured or benefitted by the promotion, depending upon the technical maturity of the industry. In growing industries such as electric blankets and automatic washers, because promotion will broaden the industry's market, all firms will probably benefit. Consequently the reaction of competitors to promotional competition is likely to be co-operative. On the other hand, in industries with established shares, such as the cigarette industry, a firm's new promotion is likely to disturb the established shares of a saturated market and hostile retaliation will then be prompt.

Opportunities for Innovation

To this point I have been stressing the economic ideas which govern the scope of managerial decisions. I don't want to imply thereby that once a sound decision has been made it will fit the need for all times. Economic conditions alter and market structures change. Management must be forever conscious of the implication of such changes.

Change means that the status quo is out of date. It means there are opportunities for using new methods of production, for producing new products, for using new channels to reach customers, or for creating new customers. The first firm to exploit such opportunities by disrupting the status quo will enjoy temporary monopoly profits. How long these temporary profits will endure depends upon the ease with which competitors can imitate the innovation, but once they do, monopoly profits quickly evaporate. However, the alert firm can stretch the period of bumper profits by deliberately following a policy of upsetting the status quo—by planning a successive series of innovations. So fundamental is this concept for the managerial function that Drucker in his "The Practice of Management" defines the entrepreneurial functions as marketing and product innovation.

Even in the case of existing products, this search for new methods applies. In more progressive firms, for instance, one finds product management councils. These are committees made up of representatives of the sales, production, and technical (engineering, design, and planning) divisions which are charged with the responsibility of getting an adequate return on the capital invested in their group. The whole emphasis is upon prompt change the moment there is a promising opportunity.

To know what is likely to be promising, of course, management must keep an eye cocked on the changes which create opportunities for new methods—a very confusing task. For changes are occurring all around us in our own society, occurring with such speed that today we seem to be living in an era of breathlessness. What are these changes? Changes such as new inventions, altered tastes, improved incomes, increased population, population transfers, etc. Every such change alters the status quo and thereby creates a new opportunity. The fork lift truck is an illustration. Its invention represented a change in technology. By adopting this invention, by innovating in other words, warehousing costs could be slashed—goods could be piled higher, handled less, and moved more swiftly.

The Saint Lawrence Seaway is another instance of technical change. When completed, the Seaway will have altered the laid-down cost of imports and exports from Southern Ontario; moreover, by making more hydro power available, it will have altered the economic advantages of Southern Ontario. Similarly, the development of atomic energy power will create new opportunities. It will make power available at economic prices in areas such as the Maritimes which are now deficient in power resources. Even in the accounting field technical changes are creating new opportunities. Electronic equipment, because of its speed, capacity, and clerical cost saving, has transformed the possibilities for new applications and methods in the area of systems and procedures.

Changes in the tastes of the community have created similar opportunities for innovation. Buying habits and motives have been greatly affected by underlying social changes. In the past quarter century for instance the level of family income has risen greatly; simultaneously, the normal work week has shrunk. These changes, reflected by greater take-home pay and more leisure hours, have been accompanied by pronounced improvement in quality in such consumer products as refrigerators and motor cars. Together they have visibly altered buying habits.

How pronounced is this change of habits can be illustrated by the retailing of groceries. Higher incomes have reduced the dependence of lower income families upon credit extended by the corner grocer; more leisure has facilitated family shopping; refrigeration has enabled a longer interval between purchases with a resultant increase in the amount of each purchase; and widespread ownership of cars has stretched the trading radius that is feasible for a store selling necessities that must be purchased frequently. In response, grocers have developed new types of location such as super markets and shopping centres based on automobile convenience; they have catered to family shopping by open displays, simplified service and new concepts, in the form of night shopping, of what are appropriate shopping hours.

Every industry you can mention is faced with similar opportunities

for innovation. How a firm should exploit them depends upon its product and the competitiveness of its industry. In some cases research departments are formed to keep the company abreast of technical developments. In others a price policy of differentials is instituted, thereby segregating markets on the basis of the customers' sensitivity to price. Or a product line policy may be followed which segregates customers on the basis of their quality preferences. Or a promotional campaign may be launched to persuade new customers and hold old ones. Or other merchandising techniques may be resorted to such as quality or service competition. But the scope which any firm enjoys in the initiation of such policies is dependent upon the market structure of the industry.

The Role of Costs

Premising that the structure is appropriate, the extent to which a firm will pursue any one policy is dependent upon the character of its costs. The test is: by how much does the increased revenue exceed the cost of creating it? A sound answer can only be given after it is known how the firm's costs behave.

For instance, if two firms with the same sales volume and profit have different cost structures, an identical promotional outlay may have different implications. For one the outlay may be profitable and for the other unprofitable. Let us call the firms A and B. They both have a sales volume of $500,000 and they both earn $50,000 profit. However, A's variable costs are 60% of sales and B's are 30%. We'll say they are both spending $25,000 on promotion, and the sales manager of each firm estimates that an additional $35,000 promotional outlay will increase sales by 15%. Should they both undertake the promotion? A's volume will increase by $75,000 and his variable costs by $45,000. This leaves $30,000 recovered of the $35,000 outlay. On the other hand, while B's volume will also increase by $75,000, his variable costs will only increase by $22,500, leaving $42,500 from which to recover the $35,000 outlay. Due to the make-up of their costs, then, the net result is that A will be worse off by $5,000 and B better off by $7,500.

Consequently, in any instance of innovation, cost is a paramount consideration. In contemplating any change then, the effects upon cost must be assessed. To this end there must be a clear understanding of how costs behave in a number of circumstances: when the rate of output is changed, for example; when prices of capital and labour alter; and when product mixes and lengths of runs vary. Recourse to accounting records is therefore essential.

But in their original form accounting records do not conveniently give the needed information and therefore the appropriate facts about costs must be built up from these needs and other sources. Financial accounting is historical—the emphasis is upon accountability and upon the efficiency of past actions. Management's emphasis, in contrast, is

upon the efficiency of present and future actions. Management wants to know how costs will behave in the future if it follows through a contemplated line of action. To supply this kind of information—information of a kind to furnish a sound basis for managerial decisions—the financial accounts must be custom tailored to the idea upon which the contemplated action is based.

In other words, the accounts must be reformulated. They must be reclassified, additions and deletions made, elements regrouped, factors repriced, etc., so that the historical records conform to the requirements of the basic idea. Say, for example, a managerial choice involves a scarce factor—such as petroleum crude. In making decisions regarding the final products to be derived from this crude, the appropriate concept is opportunity cost. For since the amount of crude is limited, the cost of producing fuel oil is the gasoline which might otherwise be had. This explains why gasoline equivalent costing has a popular following in the refining industry. Similarly, if the managerial decision concerns the use of excess capacity, the relevant concept is incremental costs, and the accounts are regrouped to segregate the prime and variable overhead costs.

Regardless of the type of market in which a firm deals, a thorough knowledge of the behaviour of costs and of the different formulations of cost is a must for efficient management. Concepts such as opportunity costs, or incremental, traceable, and escapable costs are as relevant for the producers of agricultural commodities as for producers of steel, automobiles, and electrical goods. Although all firms do not enjoy the same scope for market manipulation, they are all faced with the same basic problems of selecting output and controlling costs.

As a corollary to the importance of costs today, the person responsible fôr computing such costs has effected a break-through onto the management team. Whereas previously the accountant's status was that of a clerical type service, today it is of a professional type. In addition to his traditional duties of measuring the results of operations, the accountant is responsible for assessing proposals regarding innovations, and where such proposals backfire, for suggesting remedies. Today, then, because of the change in the status of the accountant from clerk to professional, the possession of a clear understanding of the economic ideas underlying sound managerial decisions is a requisite if the accountant is to be an executive.

FOR FURTHER READING

THE BUSINESS ECONOMIST AND MANAGEMENT, A. R. Smith, The Cost Accountant, Sept. 1956.

ACCOUNTING AND ECONOMIC CONCEPTS, Norton M. Bedford, The Jrn. of Accountancy, May 1957.

MANAGERIAL ECONOMICS, Joel Dean, Prentice-Hall, New York, 1951.

*Office Unionization** . . .

A Panel Discussion

PANELISTS:

D. G. Pyle, Consultant, Industrial Relations Institute, Toronto.
M. O'Brien, Manager, Employee Relations, Canadian General Electric Company Limited, Toronto.
C. C. Belden, Manager, Canadian Operations, Industrial Relations Counselors Service, Inc., Toronto.

What is the procedure for certifying office unions? What demands do white collar unions make and how do you deal with a union after you have one? Is there anything management can do to prevent their formation? These and other questions of challenging interest to employers today are answered in the following panel discussion.

CERTIFICATION OF OFFICE UNIONS

By D. G. Pyle

THE LAW prescribes that most employees in industry are free to be represented for collective bargaining by unions of their own choice, independent of management control, domination or influence. When a majority of a group of your employees desire a union, a procedure known as certification is made available to them by the Labour Relations Act to establish their right to be so represented, and their right to demand that their employer negotiate in good faith with that union.

In substance, by certification the government has provided an orderly, peaceful arrangement to facilitate employees establishing their bargaining rights as a substitute for the system of fifteen years ago when unions had to strike or threaten to strike in order to secure recognition.

Union Certification Not Essential

It is not mandatory to have the union certified. If you are satisfied that the union *does* represent the employees, and it is a union within the meaning of the Act, you may negotiate and reach an agreement with the union. Once that first agreement has been signed, the union's position in any subsequent proceedings is the same as though it had been certified. However, and this is important, the odd employer has heard rumblings of organization of his staff, be it plant or office, and has urged his employees, or perhaps just a few good, loyal, faithful, sensible, realistic, etc. employees, to set up their own organization and to call it a union. He has signed an agreement with it, and considered that the organization of a union had been stopped. Such a procedure has worked if the union itself withdrew. It has not worked where the union applied for certification, and the Board investigated that agreement to see if the association was a union within the meaning of the Act, and if the employer participated in its formation of administration.

Procedure for Union Certification

The technical aspects of office certification are no different to those of the plant. The Labour Relations Act of Ontario makes no reference to either group as such.

*This discussion was presented before the Hamilton Chapter of the National Office Management Association at their regular monthly meeting on January 8, 1957.

Mr. Beldon will review how one may minimize the chances of an office union. The jumping off point of my discussion will be what happens when a union can claim to represent your employees. That union may be the one which represents a group of your plant employees; or one which would like to represent your plant employees, and figures that the office staff would be a good springboard to raid the plant; or it may be the United Office and Professional Workers' Union of America, or one of the other unions designed specifically for office workers. Finally, it may be just a group of your office employees who want some recognition of themselves as a union. In any event, the first word may be a notice from the Ontario Labour Relations Board enclosing copies of an application for certification by the union.

You are required to post copies of this application in your plant immediately as well as an attached form indicating that any employees may if they so desire make representations to the Board. A date is also stated for the time and place of the hearing, and both company and employees are free to attend that hearing.

The company is expected at this point to file in writing lists of the employees by name and department and, further, to file any representations with respect to the application.

Who Is Eligible for Collective Bargaining?

More often than not, the one real issue at this time is to determine just what group of employees should be eligible for collective bargaining. The company may have a diverse group in its office including draftsmen and salesmen, head office staff as well as plant office staff. It may well be that employees are situated in widely separated offices. In addition, there is a question whether your secretary, the president's secretary, the accountant, the paymaster, the switchboard operator, etc., should be included in the eligible group.

The answers to these questions are not simple. The Labour Relations Act by definition excludes certain employees. A person who is a manager or superintendent, who exercises managerial functions, or is employed in a confidential capacity in matters relating to labour relations, is deemed not to be an employee within the meaning of the Act. The problem, therefore, is to determine just who is a supervisor, who is exercising managerial functions, or who is engaged in a confidential capacity in matters relating to labour relations as well as to determine whether one or more groups of employees have or have not the common interests with the rest to warrant their inclusion or exclusion.

Supervisors are not too difficult to distinguish in the plant, but in offices the line of demarcation may be vague. The supervisor should spend a significant portion of his time directing the work of others. He should have under his supervision a group of employees and be able to demand performance or to effectively discipline them. In addition, his

word should be one which is respected in matters of promotions, transfers, merit increases, etc.

Employees who are exercising managerial function in other than a supervisory situation can be hard to distinguish. This group should include people who have to exercise some degree of judgment in the management of a department or an operation. We can secure exclusion of staff personnel who enjoy a status comparable to supervisors and above provided, of course, that we can prove it.

Then there is the group whose job, by its very nature, makes information available to them in the field of labour relations which would place them in the difficult position of knowing what the company's programme is to be but who, at the same time, could be represented by the union. Perhaps the best way to describe this situation is to say that no employee should expect to sit on both sides of the bargaining table, and if he is so involved with the position taken by the company that he cannot truthfully be regarded as being dissociated from the management side then, of necessity, he cannot expect to be a part of the bargaining unit.

We cannot exclude a messenger boy who just might read a memorandum from the president to the vice-president, or the switchboard operator who might tune in on a conversation between the general manager and the personnel manager, or the clerk who might just rifle the files. The Labour Relations Board operates on the premise that employees are honest, and that it is the company's responsibility to protect itself from those who might be otherwise tempted. We cannot exclude the girl who works on payroll records, the bookkeeper, or the stenographer who might be given a letter to type by you or another official of the company.

Designating Office Bargaining Units

The Labour Relations Board has failed us rather miserably in designating appropriate office bargaining units. For years the Board left the matter to the parties concerned with a prayer that they could agree upon a bargaining unit which the Board could approve but which, at the same time, could not be held as a precedent to the Board. Even in 1953 and 1954 when we had some hotly contested issues as to office bargaining units at such places as the Steel Company of Canada, Canadian General Electric, and the Outboard Marine & Manufacturing Company in Peterborough, the Board did not issue any written reasons for its judgments which it likes to do when it wishes to point up its rules for adjudicating a particular issue. In these three cases the Board led off first with a decision in respect of Canadian General Electric including time study men, etc., in a bargaining unit. The company took the case to court, and while the first award found largely in favour of the company, that award has now been appealed to the Ontario Court of Appeals. At the

Steel Company of Canada the Board included the industrial engineers, but in the vote the Steelworkers were so decisively defeated that nothing further had to be done with respect to that Board's order. At Outboard Marine & Manufacturing Company, the Board certified an office unit including time study men, but through some rather devious negotiations the parties ended up with a collective agreement which did not cover the said time study men.

To come back now to the main theme and your reply to the Labour Relations Board. After making a declaration as to what bargaining unit the company believes would be appropriate, the company is then asked to complete a variety of questions regarding the business and the number of employees, etc., but apart from the issue of the bargaining unit, and one point which I will note further, there is no need to waste time on these questions here.

Determining the Status of the Union

At the time of the hearing which, incidentally, is usually held in the City of Toronto, the Board opens the proceedings with the issue of the union being a union within the meaning of the Act. There can be some question here, but this is more the exception than the rule with any but independent associations. If the Union is the Machinists or the Steelworkers or the Automobile Workers, the Board has already been satisfied as to their status. If the applicant union is a local of an international union, the Board may wish to establish that the local union does have its charter. With an independent association there may be some examination as to whether it has a constitution, whether the constitution has been ratified by the employees, and whether an opportunity was given the employees to attend the meeting for the purpose of ratifying that constitution. The Board may also examine the constitution, but unless it has some prohibitions which are considered against the public interest, there is not much real issue.

The Bargaining Unit

The Board then deals with the matter of the bargaining unit. If agreement has been reached by the union and the company, the Board will scarcely object. If there are only a few classifications at issue, the Board may hear the parties. If, however, it looks as though the union and the company are rather far apart, and the duties and responsibilities of some employees are not readily susceptible of adjudication, the Board will appoint an officer as an examiner to meet with the parties. That officer will review the matters in dispute, and report back to the Board. Both parties can make representations to the examiner, and later upon receipt of a copy of his report, either party may take issue with it and appear further before the Board.

At this point, I should note that things can become a little more complicated if, following the posting by the company of the notice of

application, a second union which perhaps was seeking to organize the employees files an intervention and an application for certification. If such is the case, you then have two unions seeking to represent the employees, or perhaps different but overlapping groups. In such a case the second union is given an opportunity to file its application, and any material in support thereof.

Determining the "Count"

The next step is to determine the number of employees in the bargaining unit. The Board will already have secured from the company the names, occupational classifications, and signatures of all employees who are covered by the union's proposed bargaining unit, and also the employees covered by the company's proposal. The Board then can determine how many employees are in any sort of a compromise. At that point, the Board announces the "count", or the number of persons whose names appear on the list filed by the employer, and the number of cards and receipts filed by the applicant union. Probably now, for the first time, you will find out just how many employees have signed cards in the union, and have paid the sum of at least $1.00. The union will also probably file further cards at this point of the hearing.

If the union has less than 45% of the employees included in the bargaining unit then its application for certification will be dismissed. If there are between 45% and 55% the Board will, as a general rule, order a vote. If there are more than 55% the Board will, as a general rule, issue its certification outright.

Fraud and Interference

There can be exceptions. If it can be established that there has been any fraud, for example, that a card or some of the cards filed were not in fact signed by the employee in question, or some employees signed but without paying the minimum of $1.00, and without any intention of paying, then the Board may dismiss the application regardless of how many employees did sign correctly. The party making the charge need not adduce evidence before the Board, but simply hand to the registrar a slip of paper with the name of the employee on it, and the Board itself will take the matter on from there through an examiner and, if necessary, a further hearing.

On the other hand, if there has been some interference by the company, and by this I mean that the company had sought to influence the employees against the union in some manner which the Board can regard as being interference, then the Board may certify the union without a vote if only 50% of the employees were signed up.

Intervention

Finally, the Board also accepts representations from employees who have acted upon the notice posted by the company, and have filed a notice of intervention. It may well be that a group of employees have

changed their minds about being represented by a Union, and they have the opportunity of notifying the Board, and of appearing before the Board at the time of the hearing. In fact, they must appear if they expect their representations to be noted by the Board inasmuch as the Board is empowered to ignore any petition if those responsible for the petition, or representatives of that group, are not present.

One word of caution at this point. Time and again employers discuss the application with employees, and encourage the filing of such a petition or intervention. Nothing kills the petition or intervention faster. The employees have to make up their own minds, and follow through themselves completely and independently of the management if they expect the Board to consider their representations. Let the employer discuss the matter with an employee's committee or assist them in making their reply or turn them over to his legal counsel, or have his secretary type out the petition, etc., etc., and, quite frankly, such employees are wasting their time if they appear before the Board.

Pending the Board's Decision

There is little else before the Board in the course of the hearing although you are afforded an opportunity to make other representations. One of the few points of any substance can be whether the application is timely. You may, for example, be in the throes of a plant conversion or a depressed condition, and you may wish to argue that your operations are so limited as compared to what they will be that a more representative indication of the wishes of the employees could best be determined in another two or three months.

The Board usually reserves decision, and while it may render its decision within a matter of a week or two, it may also reserve it for a matter of months. The application may be dismissed; there may be an outright certification; or, there may be a vote. If it is to be a vote, details are supplied, and the parties are directed to meet and arrange for a date of the vote, the hours of voting, the place of voting, the names of scrutineers, those eligible to vote, etc.

Once the vote is held and the ballots counted by an officer of the Board together with representatives of the parties, the results are then submitted in a report to the Board which again is a report of an examiner which either party may challenge if he has any material grounds for doing so.

The Board's Decision

Finally comes the decision. If the union is certified, as in the case of an outright certification without a vote, you can expect to hear from the union, and to meet the union within fifteen days from the day of the notice. That, of course, becomes Mr. O'Brien's topic. On the other hand, if the union's application is dismissed, that union cannot reapply

for six months, but there is no bar against a second or even a third union immediately starting the process over again.

HOW TO DEAL WITH UNIONS AFTER YOU HAVE ONE

By M. O'Brien

I could answer the question posed by the topic by simply stating that you deal with white collar unions the same as you deal with any other union.

However, for many of you, that answer would mean nothing. Nevertheless, it does point up the first thing you should do whether you are dealing with unions or not, that is, make use of your employee relations people.

In far too many organizations the employee relations people have little or nothing to do with, or say about, how white collar people are treated, their conditions of employment, fringe benefits, relationships with their supervisors, etc.

To those of you who have competent employee relations people in your organization, if you are not making use of them you better get busy and start using them. After all, dealing with employees, unions, etc., is their specialty. If your problem is in the legal field, you promptly consult with your legal department, or your company lawyers. If it is a tax problem, you immediately get after the tax experts. Employee relations is a problem that is with you each and every day, and one which has a most important bearing on the success of the enterprise. This just emphasizes your need to use the experts.

Office Workers' Unions

My experience with white collar workers' unions is not great, but it does go back several years, and covers, in the main, the Federation of Technical Engineers, and the International Union of Electrical, Radio and Machine Workers, C.I.O. - C.C.L.

Generally speaking, we have found that all our white collar unions are interested in the same things that interest the hourly paid or production workers. Of course, the emphasis in one group may differ from that in another.

The American Federation of Technical Engineers represents the draftsmen in our Peterborough, Davenport and Guelph Works.

The draftsmen bargain like craft unions, and are interested in all the items usually found in collective agreements signed by companies and craft unions.

The International Union of Electrical, Radio and Machine Workers C.I.O. - C.C.L. represents the ofice workers in our Peterborough, Davenport, Montreal and Quebec Works. The employees represented by this union work in the various functions found in an office, e.g. production, purchasing, order and stores, wage rate, planning, accounting, payroll, etc. and it can be said that these locals correspond to the industrial type

unions one finds bargaining for the hourly paid production and maintenance workers in the factory.

Phases of Collective Bargaining

Our agreements with these office workers have clauses covering all the phases of collective bargaining, i.e.—

Recognition

A brief definition of the bargaining unit.

Discrimination and Coercion

A statement that neither will discriminate against the other.

Working Conditions

A declaration that the company aims to provide a high standard of working conditions.

Union Security

In our case, deduction of union dues.

Management Functions

A statement that the management of the company is vested exclusively in the company, but will not be exercised in a manner inconsistent with the collective agreement.

Hours of Work

Outlines the daily and weekly hours.

Shift Bonus

Specifying the amount of shift bonus and time during which it is paid.

Overtime

Specifying the amount of overtime premium and conditions under which it is payable.

Remuneration

Specifying salary ranges, automatic progressions, performance reviews.

Vacations with Pay

Specifying amount of vacation and conditions under which it is payable.

Paid Holidays

Specifying the paid holidays and conditions under which they are payable.

Service Rules

Specifying how service credits are acquired and lost.

Seniority

Specifying how seniority is used in layoffs, recalls, upgrading.

Grievance Procedure and Arbitration

Specifying steps in handling of grievances, including final and binding arbitration.

Union and Company Representatives

Specifying obligations to give certain lists to each other—leaves of absence for union business, etc.

No Strike Clause

Specifying no strike or lockout, etc.

Union Notices

Specifying rules re posting of union notices.

Information to the Union

Specifying certain information to be supplied to the union.

Termination Pay

Specifying company obligation to employees when it closes down an operation.

Modification and Termination

Specifying conditions under which the agreement may be modified or terminated, and the duration of the agreement. In addition, we have a separate pension and insurance agreement.

It will be seen from the foregoing that they do a pretty thorough job of covering all the important points usually found in collective agreements and, of course, your employee or union relations people are familiar with all of those items, know the arguments for and against, the pitfalls, etc.

Generally speaking, white collar workers, because of the nature of their work, have a more intimate knowledge of the plans and problems, the successes and failures of management, and are, perhaps, more sympathetic to management's problems. This, however, does not mean that they are not hard bargainers—they are.

Dealing With the Union

The word union is, at times, used to mean the union as an institution. At other times, to mean the employees. It may be well to say a few words about dealing with the union as an institution, and then a few more about the union meaning the employees in the bargaining unit.

When dealing with the union as an institution, remember you are dealing with professionals, and for your own self-protection you should use your employee relations people. Your dealings should be honest and fair—no vindictiveness just because you have a union.

The union demands should be examined and evaluated on their merits. Your decision should be based on facts, having in mind the balanced best interests of all concerned, i.e. the customers, the employees, the suppliers, the shareowners and the public.

You should be willing to change your decisions provided valid reasons or new facts are brought to light which warrant a change. On the other hand, you should resist requests to change decisions if such requests are unsubstantiated by valid reasons or new facts, or if to accede to them would be contrary to the overall best interests of all concerned.

You should encourage your union to be responsible, to make its decisions based on facts (agreed-on facts, if possible).

Dealing With Union Employees

In so far as your employees are concerned, they are the same people they were before they joined a union. There should be no vindictiveness toward them. You should continue to treat them in a considerate, fair, frank and friendly manner.

You should communicate with your employees, make known to them the reasons for such of your actions and decisions as affect them, keep them informed of your objectives, plans, problems, successes and failures, help them appreciate the importance, significance and challenge of their jobs and their contribution to the success of the business.

You should establish high work standards and advise employees regularly of their performance under those standards.

Make sure that the pay and perquisites and fringe benefits, e.g. pensions, insurance, vacations, paid holidays, overtime premium, etc. are right and known to be right by your employees, that they have been granted voluntarily, not clubbed out of you by the union, and that they also know that, in return, you expect from them loyalty, skill, care, full day's effort, prompt and regular attendance, and team work.

You should discipline where necessary, making sure that the discipline is fair and appropriate.

It is because of the foregoing that I stated at the outset you deal with white collar workers in the same manner that you deal with any other union, and that you should make use of your employee relations people to do it.

MINIMIZING THE RISK OF OFFICE UNIONIZATION

By C. C. Belden

I do not intend to imply in my remarks that there is anything managements can do to provide an absolute *guarantee* against unionization of their office employees. My comments are intended, however, to suggest actions that managements can take to help *minimize the risk* of office unionization and, at the same time, establish a basis for sound future relationships if, as, or when unionization does occur.

I propose to deal with the subject in four parts as follows:

I. Why Do We Have Unions?
II. Why Do People Join Unions?
III. What Is the Current Status of Salaried Personnel Generally?
IV. What Can Managements Do?

Why Do We Have Unions?

Volumes have been written by many learned people to answer this question. To my mind, however, the answer has been very well summarized by H. Devon Smith, Financial Editor, Toronto Telegram and I

quote from his column in a recent issue of this paper—"Like any other enduring organization of men, organized labour is in existence simply because something was needed to fulfill a function that was lying around unfilled. There was a strong human aspiration being overlooked by the existing leaders of society. In other words, organized labour as we know it was the filling of a social vacuum, a manifestation of a natural force; so is professional management. Men who can reasonably be viewed as enlightened management experts on labour are still talking about guarding management's functions and prerogatives against union encroachment. Functions and prerogatives cannot be guarded; they accrue as the natural accompaniments of successfully meeting a public need. Similarly they are lost, not because of inadequate precautions, but because a competitor for public confidence in the particular field has outpaced the traditional holder of the functions and prerogatives in question. Management has held onto and enlarged its prerogatives in plenty of fields by doing a better job than any other group offered to do. But it should have learned by now that it is sharing leadership billing today because it has from time to time failed to meet a need and not because it lost a fight. The trouble with people is that they don't give support to those who want it but to those they want."

Why Do People Join Unions?

The reasons why individuals join labour unions are essentially these—

A. Because as members of a particular group they feel they are not being fairly or properly treated in relation to another group. (Employees vs. stockholders; employees of one company vs. those of another; employees of one part of a single company vs. those in another part.)

B. Because as a member of a particular group an individual feels he or she is not being fairly or properly treated in relation to another member or other members of the same group.

C. Because of various forms of social pressure
   1. At the work place—from fellow employees.
   2. In the community—from friends, associates or neighbours.
   3. In the home—from the father, brothers or sisters who may be union members.

D. In order to avoid strife or conflict—it is better to join than to be continually hounded or threatened.

What Is the Current Status of Salaried Personnel Generally?

There has been a gradual but significant deterioration in the *relative* status of salaried personnel in some or all of the following areas:

A. Earnings level
   1. Base pay—where adjustments have not kept pace with those for hourly workers.

2. Overtime—hourly employees are normally paid at premium rates, salaried personnel generally in Canada are not compensated for overtime.
3. Various forms of premium pay—salaried personnel do not generally receive any extra pay for work on holidays, night work or week-end work whereas hourly-paid employees do.

B. Statutory Holidays—with pay, formerly an exclusive privilege of salaried personnel are now enjoyed by hourly-paid employees as well.

C. Vacations with Pay—formerly an exclusive privilege of salaried personnel are now enjoyed by hourly-paid employees as well.

D. Sickness Benefits—formerly an exclusive privilege of salaried personnel are now enjoyed by hourly-paid employees as well.

E. Paid Time Off for Certain Specified Reasons—many hourly-paid employees now receive this consideration.

F. Working Conditions
1. The work place including auxiliary facilities—in many new and modernized plants working conditions are as good or better than some offices.
2. The Work Process—many offices now become highly mechanized so that work process varies less and less from that in many plants.

G. Terms and Conditions of Employment Spelled Out and Guaranteed by Written Contract—unionized employees have guarantees through written and enforceable agreements outlining the terms and conditions under which they will work. In many cases salaried employees have no written statements of any kind and are at the whim and fancy of their respective superiors.

What Can Management Do?

A. Written statements of company policy governing salaried personnel —prepared and distributed to all to whom they apply and setting forth the terms and conditions of their employment. These should embrace policy statements concerning such matters as employment; training; performance appraisals; promotions; transfers; demotions; and terminations: *seniority;* hours of work; *salaries; overtime; grievances;* statutory holidays; vacations; employee benefits and services.

The most important of these from the standpoint of their being targets for union organizers are (1) a grievance procedure, (2) a statement concerning company recognition of length of service (seniority), (3) salary policy and procedures, (4) overtime, and (5) assurances concerning sickness benefits. These I shall deal with in that order.

B. *Grievance Procedure*: There should be a clearly defined and orderly process for dealing effectively with the problems, com-

plaints, and grievances of salaried personnel that will embrace the following features;

1. It should provide a means whereby an employee can take his grievance to successively higher levels of management if he or she feels that the grievance has not been satisfactorily resolved at a lower level.
2. It should provide assurance to all employees that there will be no reprisals of any kind in the case of any employee who takes a grievance to higher levels.
3. It should make clear that each individual member of supervision and management has the responsibility and obligation not only to deal promptly and fairly with all grievances brought to him but to *aid* employees *in taking grievances to higher levels* if they are not resolved to the employees' satisfaction at the lower level.
4. It should clearly delineate the functions of the personnel officer as an adviser or counsellor to the employee and to the supervisor in grievance cases.
5. The entire procedure should be reduced to writing and be distributed to all personnel affected.

C. Seniority: There should be a clear and concise written statement distributed to all personnel concerned which will embrace the following essential features:

1. It should state how seniority is determined; whether it is to be computed on a company, plant, department or occupational basis; and circumstances under which seniority is lost or broken.
2. It should assure employees that the company recognizes and gives proper consideration to length of service in matters of promotion, transfer, demotion and lay-off.
3. It should set forth how seniority will be applied in such matters.

D. Salary Matters: There should be a clear and concise written statement setting forth the basis on which salary levels are established for the various occupational classifications in the company. This should include reference to the influence of rates paid for similar work in other establishments in the area or industry and the method used in determining the internal alignment of rates. Where salary ranges are used this should be made known and their purpose explained. Each individual employee should be advised of the salary range applicable to his or her occupational classification. Provision should be made for periodic review of individual salaries and adjustments, based on merit, should be made where indicated. Clear distinction should be made between types of salary increases—merit, general, promotional—each serves a separate and distinctly different

purpose and one should not be used in lieu of or to offset another. *merit* increases and *promotional* increases involve *individual* treatment and are made within the limits of, and in conformance with, established salary brackets. *General* increases, on the other hand, involve such factors as cost of living and general wage and salary levels in an area or industry, which affect *all employees* and call for adjustments of the salary brackets themselves. Failure to distinguish properly between these types of salary adjustment, or to attempt to offset one against another, leads inevitably to employee dissatisfaction and tends to destroy the effectiveness of each type of increase in accomplishing the purpose for which it was intended. General salary increases should not lag behind hourly-rate increases, and promotional increases should be made at the time a promotion is effective and not delayed during a trial period.

E. Overtime: Provision should be made for payment at specified rates to salaried personnel up to predetermined position or salary levels for all time worked in excess of regularly scheduled hours.

F. Sickness Benefits: Insured sickness and accident benefits are generally publicized and known to employees. Company paid benefits of the salary continuation type frequently have not been formalized and announced to those covered. There should be a definite schedule of benefits preferably keyed to length of service which will provide assurances to salaried employees as to the duration and amount of benefits to which they will be eligible.

Management attention to those and other related matters along the lines proposed will go far to *minimize* the risks of office unionization even though not providing absolute guarantees against such an eventuality.

FOR FURTHER READING

WHITE COLLAR UNIONS ARE DIFFERENT, G. Strauss, Harvard Business Review, Sept.-Oct. 1954.

OVERHAULING EMPLOYER-EMPLOYEE RELATIONS, The Role of the Personnel Group in Industrial Survival, J. E. Martin, AMA Personnel Series No. 159.

*Planning Organization For Cost Control** . . .

By WILLIAM H. HOPKINS,
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Montreal, P.Q.*

This author believes the best way to achieve the most satisfactory control on all elements of cost is by careful forward planning, proper organization and a policy of delegation of authority and responsibility. All other aspects of cost control must fit within this broad framework, the principles of which are outlined below.

THE PROBLEM of controlling cost is one of increasing importance, as there seems to be a very definite trend to increasing volume and decreasing profit margins. In other words, it is necessary to sell more in order to obtain the same dollar net profit return. This situation is particularly evident in certain industries which are expanding rapidly with the result that competition is increasing. In theory, selling prices are established on the basis of cost, plus the profit mark-up which is considered appropriate. However, in actual practice, selling prices, in most cases, are determined to a larger extent by the competitive position in the industry, unless we are fortunate enough to have a substantial volume of business on a cost plus basis. Therefore, the only way in which we can hope to maintain a reasonable margin of profit on sales is to give constant attention to all of the cost factors and make every effort to keep these under control.

The Approach to Cost Control

One of the main problems which we encounter in trying to prevent costs from increasing steadily is that many costs are fixed in nature; for example, salaries and wages are usually determined on the basis of contracts with employees, and even if no such contract exists in any particular company, they are still governed by the going rates in other companies in the community. Therefore, it is impossible to reduce wage or salary rates and in fact the opposite is true, as such rates have been rising steadily for a number of years and there is no evidence that this trend will be stopped or reversed. Many other elements of cost are also fixed, such as rental or carrying charges on buildings, power, taxes, insurance, etc. It is therefore not possible to make arbitrary cuts in the various elements of cost entering into our production and the only approach which we can use is to make sure that we are operating with maximum efficiency. In other words, we must be sure that we are obtaining full value for every dollar spent. Furthermore, our efforts at controlling costs must be on a continuing basis, and they must be directed in a manner which will permit us to control costs at the points where they are incurred and at the time when they are created.

*An address to the Cornwall Chapter of the Society of Industrial and Cost Accountants on November 15, 1956.

Over-all Management Policy

The important question, of course, is exactly how should we deal with this problem? I do not believe that there is any magic formula which we can apply to keep all elements of cost to a minimum at all times. I do believe, however, that there are certain basic principles which can be adopted, and it is from this point of view that I should like to deal with this subject. Cost control is, I believe, merely one element of over-all management policy and the underlying principles must first be accepted by top management and from there carried right down the line. No one person, or group of persons, can accomplish maximum results in this area. This can be done only if everyone in the organization plays his part, as we all to a greater or lesser degree have some responsibility for insuring that maximum value is obtained by the company for every dollar spent.

In many cases we fail to accomplish the results which we desire because we place the responsibility for controlling costs on a few individuals in the senior management group and attempt to achieve results by issuing more and more reports and statements of various kinds. If things are not going right, there is sometimes a tendency under this policy to demand more statements in greater detail and possibly at earlier dates. Eventually we have so many reports and statements that we have not time to read them, and even if we do there is no time to take effective action, particularly as the damage in many cases has already been done. I do not mean to imply that we should not have prompt and accurate operational reports of various kinds for the information and guidance of management at various levels, as I believe that this is essential. The point I am making is that, in my opinion, there is, in many cases, a tendency to believe that such data will in itself achieve the desired result of controlling costs. Actually, such statistical information does not control anything, and reports are only tools to allow control to be exercised by people. Furthermore, as previously mentioned, most reports are received and studied long after the events which they reflect have transpired. I think, therefore, that many of us must adopt a different approach to this extremely important problem and try to see that unreasonable costs are not incurred in the first place, rather than obtaining information later which will indicate that all is not well. If we could reach an ideal situation, which, of course, we never will, where we have maximum efficiency in all phases of our operations, we could probably dispense with all types of reports and save a lot of money.

Three Principles of Cost Control

I should like to suggest three principles which, I believe, are important in dealing with the problem of costs—

1. *Forward planning of all phases of the company operations.*

Because of the increasing complexity of modern business, it is essential that careful forward planning be carried out if we hope to stay in business and make profits. This means not only careful financial planning as exemplified in our budgets, but from the information derived from such financial forecasts we must determine our requirements for space, people, etc. Unless this is done, we will undoubtedly incur unreasonable costs for crash programmes, overtime in productive departments, insufficient time for purchasing materials, high cost of warehousing and moving materials from point to point and so on. Therefore I believe that the time and effort spent on careful planning for future operations will result in very substantial savings.

2. *The most efficient type of organization for achieving our objectives.*

This is an area where, I believe, a great deal more attention should be given than is usually the case. Many companies do not realize that because of growing volume, increasing competition and diversification of products, the organization which may have served them satisfactorily in the past is no longer suitable. You will, no doubt, have observed that many of the largest companies, both in the United States and Canada, have, in recent years, completely changed their organizational structures. I believe that poor organization is one of the main causes of excessive costs, as it is not conducive to efficient operation. Whether we wish to operate with what is commonly known as a "functional organization" or a "decentralized" type of organization will, of course, depend upon the nature of our business, the geographical location of the various plants or offices, and the type and nature of the products being produced and sold. The main point, however, is that we should be willing to take a careful look at the type of organization which we now have to determine whether or not we are set up in a way which will produce the most efficient results.

Another mistake which is frequently made is that we often tend to vary the organizational structure to suit individuals. In other words, a person is put in a certain position which is shown on our chart to represent a specified responsibility and authority, but because the individual is not fully qualified, the responsibility and authority are actually spread around, with the result that no one is very sure who is responsible for what. I believe this is unsound practice insofar as the company's interest is concerned, but I believe also that it is unfair to the individual who is called upon to carry a load greater than he is capable of handling. Therefore, I suggest that it is very important, when we determine what our organizational set-up is to be and the qualifications required at various management levels, that we give careful attention to selecting individuals who will fit the jobs rather than the reverse.

3. *Delegation of responsibility together with requisite authority and accountability for results at all levels of management.*

In my opinion, this is the most important principle involved in sound management under to-day's conditions, and therefore the most important in attempting to control costs. This again must first be accepted as a company policy by top management, and clearly defined and thoroughly understood by all levels of management in the company. It is no longer possible to run a business of any size by having one man, or a few key men, assume all of the responsibility and everyone else in the company simply following instructions. Unfortunately many companies still operate along these lines, even though in some cases they will not admit that it is so. In this way the majority of individuals are merely operating mechanically, with no authority or responsibility for the end results. The key personnel receive all kinds of reports, which in many cases merely show that things are not going as well as they should, but do not correct the situation at all. I suggest that maximum efficiency can only be obtained if we adopt the policy of delegating responsibility together with requisite authority as far down the line as possible. In other words, management function should be to plan the operations carefully, select the proper individuals to carry out the various functions and then to assess the results on definite pre-determined bases.

The individual should know in advance—

1. *What is my responsibility and authority?*
2. *How will I be judged?*

When authority has been delegated at various levels of management, the responsibility and authority of each person should be clearly defined and understood, not only by the individual, but by others in the company as well. Only in this way can we expect to achieve a smoothly running operation. Also, we must be very careful that once having delegated authority and responsibility, we allow the individual to operate within the framework outlined in his job description, and not interfere in any way except to advise and help as much as possible when this is needed. Under this method of approach each person knows in advance what his responsibility is, what authority he has and how the results of his work will be assessed by his superiors. He develops a feeling of responsibility and feels that he is playing an important part in the company's operations.

I believe that in many cases, while management at various levels delegates responsibility and authority on paper, in actual fact they spend a great deal of time doing the other fellow's work or watching to see that it is being done. This not only defeats the underlying principle of delegation, but takes up too much of the senior official's time, with the result that he is not doing his own job. This all sounds fairly simple,

but I have found that while most people in the management group will agree to give lip service to this philosophy, they do not carry it out and the results are sometimes very unsatisfactory. As I mentioned previously, it is essential that the principle be accepted and carried out first at the top level of management, as otherwise we cannot expect people further down the line to act in a manner different to that in which their own superiors operate. I do think, however, that if the delegation of responsibility and authority, together with accountability, is adopted as a company policy, it will produce the most efficient results which we can hope to obtain.

Procedures

In this discussion, I have attempted to deal only with certain broad principles which I believe are sound in dealing with the problem of cost control. Naturally, we must give careful thought to procedures in all areas, and some of the more important things which we must bear in mind are—

Motivation of employees through such things as wage administration and incentives, suggestion systems, etc.,
Good communications throughout,
Production methods,
Shop layout,
Material handling,
Work simplification,
Careful job scheduling, etc.

All of these things, however, can, I believe, be dealt with more efficiently if we have the proper organization and if everyone clearly understands the part he is to play and the degree of responsibility which he has to carry.

Summary

To summarize, I believe that the best way to achieve the most satisfactory control on all elements of cost is by careful forward planning, proper organization and a policy of delegation of authority and responsibility all down the line. In other words, we attempt to insure maximum efficiency in our day-to-day operations in all areas by our operating policies rather than by placing the full responsibility on a few people who try to achieve results by laying down all the rules and checking by means of numerous reports.

FOR FURTHER READING

ORGANIZATION AS A FACTOR IN COST REDUCTION AND CONTROL, by Gerald G. Fisch, Cost and Management, July-Aug. 1955.
DELEGATION OF AUTHORITY AND RESPONSIBILITY, by B. A. C. Hills, Cost and Management, Nov. 1956.
CASE HISTORY IN DEVELOPMENT OF COST CONTROL, by E. J. Hockstead, N.A.C.A. Bulletin, Jan. 1956.

Student Section . . .

EXAMINATIONS, 1956
FUNDAMENTALS OF COST ACCOUNTING

QUESTION IV (30 marks)

The Audio Company of Hamilton was engaged in the manufacture of radio receiving sets, accessories, etcetra. A job cost system was in use.

The Trial Balance of the Factory ledger as at March 31, 1956 was as follows:—

Audio Company
Factory Ledger Trial Balance
as at March 31, 1956.

	Debit	Credit
General Stores control	$ 18,524.00	
Work in process control	14,047.00	
Receiving and storeroom expense	1,276.00	
General Factory Overhead	7,986.00	
Finished Stock Control	7,748.00	
Accrued Payroll		$ 812.00
General Ledger Control		48,769.00
	$ 49,581.00	$ 49,581.00

The balances in the work-in-process subsidiary ledger as at March 31st, 1956, were as follows:—

Job	Machine Hrs.	Labour Cost	Material Cost	Total Cost
476	941	$1,957	$1,817	$3,774.00
479	1,087	2,203	2,338	4,541.00
482-489	2,307	4,353	1,379	5,732.00
	4,335	$8,513	$5,534	$14,047.00

During April 1956 invoices were entered in the purchase book on account of the factory as follows:—

For general stores	$ 8,204
For general factory purposes	900
For receiving and storeroom expense	736

Payrolls accrued during the month on account of factory were as follows:—

Direct labour.

Job	476	$ 40.00
Job	479	235.00
Job	482-489	1,752.00
Job	490	806.00

Indirect labour:—

Receiving and storeroom	$ 375
General factory	386

Payments made during the month for factory payrolls were $4,404.

Deferred charges (insurance, etc.) written off the general ledger during April on account of factory were:—

For receiving and storeroom	$	225
For general factory		126

The depreciation applicable to the factory was:—

Receiving and storeroom	$	4.00
General factory overhead		380.00

Requisitions to the general storeroom during the month amounted to $12,814, of which $404 was for general factory uses and $12,410 was for the following jobs:—

Job	479	$	1,203
Job	482-489		6,001
Job	490		5,206

The machine hours on jobs were as follows for the month:—

Job	476	31 hours
Job	479	127 hours
Job	482-489	700 hours
Job	490	351 hours

Job 476 was shipped directly to a customer without passing through the finished stock room. Job 479 represented receiving sets which went into the finished stockroom. Jobs 482-489 represented component parts which went into general stores.

Overhead on jobs is distributed at the time the job is closed out on the following basis:—

Receiving and storeroom expense—6% of cost of materials issued from general stores.

General factory overhead—$1.60 per machine-hours used on the job.

For instances other than for jobs, the receiving and storeroom expenses applicable to general stores issues are distributed monthly to the account or accounts for which such materials are drawn. The rate is 6% of the value of such material withdrawn from general stores.

In addition to the sale of Job 476, material costing $14,174 was shipped from the finished stockroom and material costing $4,218 was shipped from the general storeroom.

All of the foregoing transactions with the exception of the entries affecting the cost of goods sold have been entered on the general books, and the factory ledger control account on the general books appears as follows:—

Factory ledger control account

1956 April	1,	Balance	$ 48,770.00
	30,	Purchases	9,840.00
	30,	Payroll	4,404.00
	30,	Deferred Charges	351.00
	30,	Depreciation	384.00

No entries, however, have been made on the factory journal or factory ledger.

REQUIRED:

On the basis of the foregoing information, prepare:

(a) Journal entries for the factory journal.
(b) Trial balance of factory ledger.
(c) Schedule of accounts in work-in-process ledger, April 30, 1956.

SOLUTION 4.

(a)

(1)		
General stores control	$ 8,204.00	
General factory overhead	900.00	
Receiving and storeroom expense	736.00	
General ledger control		$ 9,840.00
Purchases, April 1956, subject to factory accounting.		
(2)		
Work in process control	$ 2,833.00	
Receiving and storeroom expense	375.00	
General factory overhead		386.00
Accrued payroll		$ 3,594.00
Payrolls, April 1956, subject to factory accounting.		
(3)		
Accrued payroll	$4,404.00	
General ledger control		$ 4,404.00
To credit the general accounting department with amounts of factory payrolls disbursed during April 1956.		
(4)		
Receiving and storeroom expense	$ 225.00	
General factory overhead	126.00	
General ledger control		$ 351.00
Insurance, etc. charged by the general accounting department to the factory in the month of April 1956.		
(5)		
Receiving and storeroom expense	$ 4.00	
General factory overhead	380.00	
General ledger control		$ 384.00
Depreciation charged by the general accounting department to the factory in the month of April 1956.		
(6)		
General factory overhead	$ 404.00	
Work in process control	12,410.00	
General stores control		$ 12,814.00
Requisitions on general stores, April 1956.		
(7)		
General factory overhead	$ 24.24	
Receiving and storeroom expense		$ 24.24
Receiving and storeroom expense applicable to withdrawals chargeable to general factory overhead, April 1956.		
(8)		
Work in process control	$ 764.28	
Receiving and storeroom expense		$ 764.28

Receiving and storeroom expense applicable to materials requisitioned for production orders,—and charged to such orders in the month of completion, April 1956:

No. 476	$109.02
479	212.46
482-489	442.80
	$764.28

(9)

Work in process control		$ 8,308.80	
General factory overhead			$ 8,308.80
General factory overhead applicable to production orders, and charged to such orders in the month of completion, April 1956.			
No. 476	$1,555.20		
479	1,942.40		
482-489	4,811.20		
	$8,308.80		

(10)

Finished stock control		$ 13,612.08	
General stores control		18,739.00	
Work in process control			$ 32,351.08
Production orders completed during April 1956:			
No. 476 Shipped direct to customer	$ 5,478.22		
479 To finished stock	8,133.86		
482–489 To general stores	18,739.00		
	$ 32,351.08		

(11)

Cost of sales		$ 24,123.30	
Finished stock control			$ 19,652.22
General stores control			4,218.00
Receiving and storeroom expense			253.08
Cost of sales, April 1956:			
No. 476	$ 5,478.22		
Other finished products	14,174.00		
Material from general stores	4,218.00		
Receiving and storeroom expense applied to material from general stores	253.08		
	$ 24,123.30		

(12)

General ledger control	$ 24,123.30	
Cost of sales		$ 24,123.30
To charge general ledger control with cost of sales for April 1956.		

(b)

AUDIO COMPANY
TRIAL BALANCE—FACTORY LEDGER
April 30th, 1956.

	Debit	Credit
General stores control	$ 28,435.00	

Work in process control	6,012.00	
Receiving and storeroom expense	1,574.40	
General factory overhead	1,897.44	
Finished stock control	1,707.86	
Accrued payroll		$ 2.00
General ledger control		39,624.70
	$ 39,626.70	$ 39,626.70

(c)

AUDIO COMPANY
WORK IN PROCESS LEDGER
April 30th, 1956.

Order No. 490:			
Material		$ 5,206.00	
Direct labour		806.00	
Machine hours	351		
Work in process control, April 30th, 1956			$ 6,012.00

ACCOUNTING II

Comments by Prof. J. D. CAMPBELL

QUESTION IV (15 marks)

PREPARE a statement of Source and Application of Funds and Changes in Working Capital from the following statement of assets and liabilities of X Company Limited at 30th June, 1954 and 1955:

	30th June 1954	30th June 1955
Assets:		
Bank Account—Current	$ 17,728	$ 16,654
Accounts receivable	60,768	68,550
Allowance for Bad Debts	(4,600)	(5,600)
Inventories	104,584	104,974
Fixed Assets	15,692	24,090
Accumulated Depreciation	(4,212)	(6,806)
Prepaid items	1,704	1,804
	$ 191,664	$ 203,666
Liabilities:		
Accounts payable	$ 29,612	$ 24,750
Income taxes payable	1,508	6,814
General Reserve	4,000	5,000
Preferred share capital	60,000	60,000
Common share capital	80,000	90,000
Earned Surplus	16,544	17,102
	$ 191,664	$ 203,666

An analysis of the earned surplus account for the financial year ended 30th June, 1955, follows:—

30th June, 1954	By Balance		$ 16,544
30th June, 1955	Net profit for the year		10,258
	to Dividends—Pfd.	$ 3,600	
	Common	5,100	

Transfer to general reserve	1,000	
Balance carried fwd.	$ 17,102	
	$ 26,802	$ 26,802

You also find that the actual outlay for fixed assets during the period amounted to $8,998, the sum of $600 being an adjustment transfer from the accumulated depreciation account.

SOLUTION 4.

Exhibit A.

(a)

X COMPANY LIMITED
STATEMENT SHOWING SOURCE AND APPLICATION OF FUNDS
During the year ended June 30th, 1955.

FUNDS PROVIDED BY:		
Net income for the year	$ 10,258.	
Add:		
Charges against income not requiring disbursement of funds:		
Depreciation	3,194.	
		$ 13,452.
Common shares of capital stock sold		10,000.
		$ 23,452.
FUNDS APPLIED TO:		
Fixed assets acquired		$ 8,998.
Dividends paid:		
Preferred	$ 3,600.	
Common	5,100.	
		8,700.
Working Capital increase. (Exhibit B)		5,754.
		$ 23,452.

(b)

Exhibit B.

X COMPANY LIMITED
SCHEDULE OF CHANGES IN WORKING CAPITAL
During the year ended June 30th, 1955.

	June 30th, 1954	June 30th, 1955	Increase or (Decrease)
Current Assets:			
Cash in bank	$ 17,728.	$ 16,654.	$ (1,074.)
Accounts receivable	60,768.	68,550.	7,782.
Allowance for bad debts	(4,600.)	(5,600.)	(1,000.)
Inventories	104,584.	104,974.	390.
Prepaid items	1,704.	1,804.	100.
	$180,184.	$186,382.	$ 6,198.
Current Liabilities:			
Accounts payable	$ 29,612.	$ 24,750.	$ (4,862.)
Provision for taxes on income	1,508.	6,814.	5,306.
	$ 31,120.	$ 31,564.	$ 444.
Net Working Capital	$149,064.	$154,818.	$ 5,754.

COMMENTS

The question was well answered in the majority of cases where it was attempted. The major difficulty was encountered with the item of accumulated provision for bad debts which is considered as working capital. The same situation exists in respect to prepaid expenses. No penalty was imposed where the student treated these items other than as working capital provided they were not included in both statements.

Some criticism might have been raised as to the form in which the required statements were presented although in marking a degree of lenience was applied.

PERSONALS

K. A. Biggs, R.I.A., of the Edmonton Chapter, has been admitted into membership in the Institute of Chartered Accountants.

R. A. (Ron) Shute, C.A., R.I.A., Edmonton, Alberta, has been appointed Auditor for the Board of Public Utilities Commissioners.

William Berman, B.Com., Li.A., C.A., R.I.A., Professor of Commerce at Dalhousie University, has been awarded a Ford Foundation fellowship to a summer case seminar of the Graduate School of Business Administration at Harvard University. Prof. Berman, a member of the Halifax Chapter, is the first Canadian to receive this honour.

M. P. McBain, R.I.A., Secretary-Treasurer of The Kellogg Company of Canada, Limited, London, Ontario, has been appointed a Director of the company. Mr. McBain is immediate past President of the Society of Industrial and Cost Accountants of Ontario.

Darell Campbell, Vice-Chairman of the Vancouver Chapter for the coming year, has joined the staff of the Canadian (B.C.) Telephones and Supply Co. Ltd. Mr. Campbell was formerly with James Lovick & Co. Ltd., Vancouver.

G. C. Williams, of the Toronto Chapter, has been appointed Secretary of The Foundation Company of Ontario and Assistant Secretary-Treasurer of the Foundation of Canada Engineering Corporation Limited.

Fernand Turgeon, M.S.C., R.I.A., past Chairman of the Quebec Chapter, has been appointed Director of the Quebec Board of Trade for the season 1957-58.

Maurice Godbout, B.Com., C.A., R.I.A., of the Quebec Chapter, has been appointed President of the Canadian Manufacturers' Association.

J. Gordon Mock, C.A., Treasurer of Jenkins Bros., Limited, Montreal, has been elected a Director of the Company and also has been appointed Secretary.

John Logan, R.I.A., of the Toronto Chapter, has been appointed Secretary and continues as Chief Cost Accountant of Ferranti Electric Limited, Mount Dennis, Ontario.

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